

FDIC State Profile

Summer 2005

Kansas

Kansas' employment declined in the first quarter of 2005.

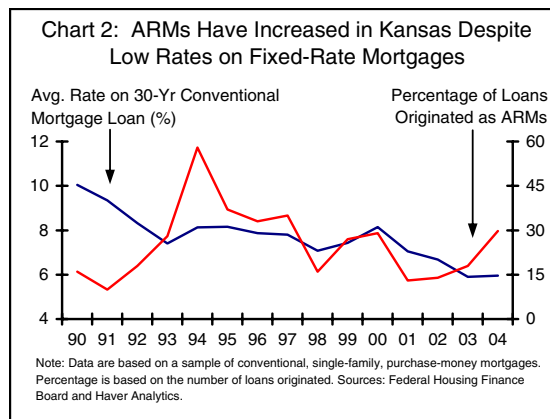
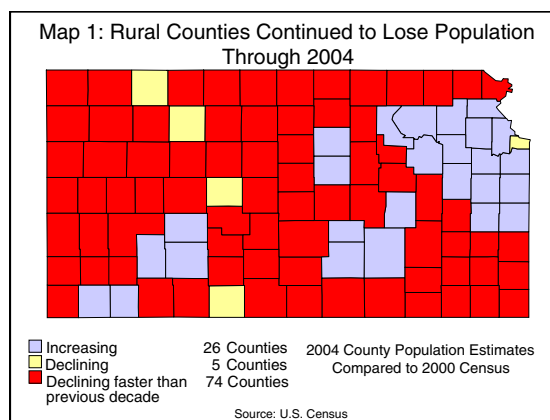
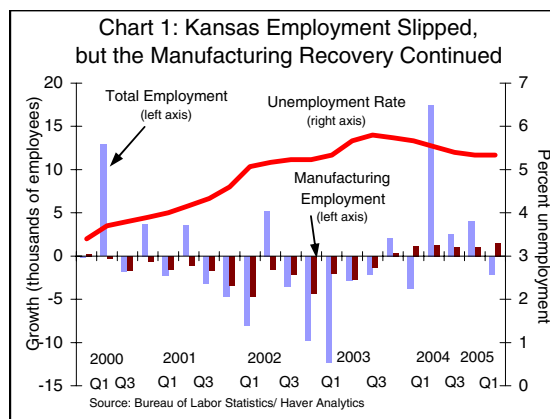
- Kansas's labor force lost more than 2,000 jobs in the first quarter, following three consecutive quarters of strong recovery (See Chart 1). Most of the weakness can be attributed to cutbacks and consolidations in information-related industries, job losses in the retail sector, and a slowing in hiring of construction workers.
- The manufacturing sector experienced its sixth consecutive quarter of growth, with many of the new jobs coming from a recovering aircraft sector in **Wichita**. Increased employment in petroleum and gas drilling, stimulated by higher energy prices, has been another important source of job growth.
- The unemployment rate declined to a two-year low of 5.3 percent in the first quarter, compared with 5.7 percent one year ago.

Rural counties in Kansas have continued to lose population since the 2000 Census.

- According to the 2004 Estimates of County Population released by the Census Bureau in April 2005, the Kansas population increased by nearly 11,000 people compared with the previous year. The metropolitan areas of **Kansas City**, **Lawrence**, **Topeka**, and **Wichita** showed most of the increase, accounting for more than 85 percent of the added population.
- However, rural counties in Kansas continued their trend of depopulation as 79 of the state's 105 counties lost population from 2000 to 2004. Because of rural depopulation, population in Kansas grew only 1.8 percent (42nd among all states) during the period (See Map 1).

The popularity of adjustable-rate mortgages (ARMs) has increased despite low rates on fixed-rate mortgages.

- Despite historically low mortgage rates in 2003 and 2004, home purchasers in Kansas have increasingly chosen ARMs (See Chart 2).
- Should interest rates increase, some ARM holders may be vulnerable to rising debt service requirements.



State Profile

- Residential ARM balances at insured institutions in Kansas have been modest. In the first quarter of 2005, 29 percent of Kansas institutions reported no outstanding closed-end ARMs secured by first liens on 1-4 family residential properties.

Although home prices appreciated significantly in many areas of the nation, Kansas changes were more moderate.

- Home price appreciation in Kansas averaged 4.8 percent for the year ending at first quarter of 2005, less than half the national rate (See Map 2). While Kansas ranked just 46th of the 50 states in the percentage increase, home price appreciation in the state still outpaced the overall inflation rate.
- Home prices in **Kansas City**, **Lawrence**, and **St. Joseph** increased more than the state average. However, home price appreciation in **Wichita**, which is recovering from massive aircraft manufacturing layoffs, was just 2.3 percent.
- While home prices in Kansas grew less than per capita income in fourth quarter 2004, prices had grown faster than per capita income in every other quarter since fourth quarter 2000.

Agricultural credit quality continues to improve at Kansas's farm banks.

- On a year-over-year basis, agricultural loan delinquencies, which generally peak in the first quarter of the year, declined to their lowest level in recent history as Kansas farmers benefited from strong wheat and soybean production and prices, strong cattle prices, and high government support payments (See Chart 3).
- Agricultural loan charge-offs have also been subdued over the past decade, with most farm banks reporting minimal net charge-offs during that period.
- USDA forecasts, which indicate strong net farm income in 2005, suggest that agricultural loan problems should remain low at Iowa's farm banks this year.

Profitability increased slightly, driven by increased net interest margins and a large reduction in noninterest expenses.

- Annualized pretax return on assets (ROA) remained strong in the first quarter 2005, increasing 11 basis points from one year ago (See Table 1).
- However, much of the increase in profitability reported by the state's insured institutions was because of reduced personnel expenses, a trend that may not be sustainable.

- Loan loss reserves remained strong. As a percent of total loans, the loan loss reserve declined five basis points to 1.46 percent, but increased to 1.56 times coverage of noncurrent loans, a five-year high.

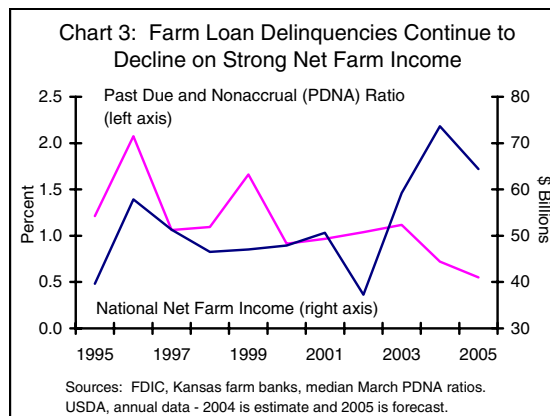
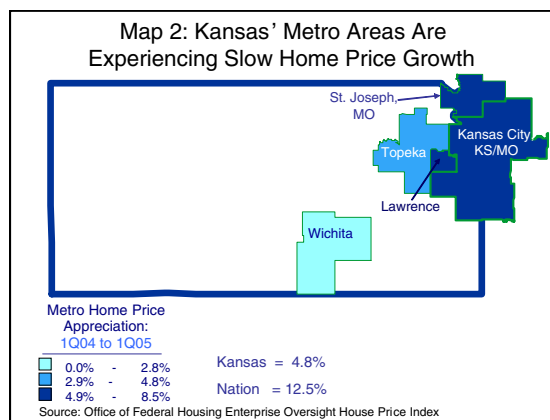


Table 1: Profitability Increased, Driven By Reductions in Provision and Noninterest Expense

Income statement contribution (as a percentage of average assets)			
	First Quarter (annualized)		Percentage Point Change
	2005	2004	
Net Interest Income	3.65	3.61	0.04
Noninterest Income	0.81	0.96	(0.15)
Noninterest Expense	2.93	3.14	(0.21)
Provision Expense	0.10	0.16	(0.06)
Security Gains & Losses	0.00	0.03	(0.03)
Net Income (ROA) Before Taxes	1.43	1.30	0.13

Source: FDIC. Kansas small community institutions (total assets less than \$250 million), excluding denovo and specialty institutions.

Kansas at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.9%	-0.5%	-1.5%	-0.9%	1.0%
Manufacturing (13%)	2.6%	-1.3%	-5.3%	-5.5%	-2.0%
Other (non-manufacturing) Goods-Producing (5%)	4.8%	-1.9%	-0.2%	-0.6%	-2.9%
Private Service-Producing (62%)	1.5%	-0.3%	-1.3%	-0.7%	1.6%
Government (19%)	1.9%	-0.3%	0.0%	1.6%	2.3%
Unemployment Rate (% of labor force)	5.3	5.7	5.3	5.1	4.0

Other Indicators	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Personal Income	N/A	3.8%	2.2%	0.9%	5.6%
Single-Family Home Permits	-1.1%	9.7%	4.3%	3.0%	-12.8%
Multifamily Building Permits	123.6%	-59.5%	84.4%	-81.7%	50.9%
Existing Home Sales	5.9%	3.1%	12.7%	11.2%	1.5%
Home Price Index	4.8%	4.2%	3.8%	4.7%	5.4%
Bankruptcy Filings per 1000 people (quarterly level)	1.42	1.35	1.32	1.17	1.17

BANKING TRENDS

General Information	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Institutions (#)	372	379	380	386	392
Total Assets (in millions)	58,119	54,192	51,599	48,728	49,858
New Institutions (# < 3 years)	3	7	7	8	8
Subchapter S Institutions	161	159	149	140	129

Asset Quality	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.61	1.96	2.21	1.83	2.03
ALLL/Total Loans (median %)	1.38	1.45	1.44	1.40	1.39
ALLL/Noncurrent Loans (median multiple)	1.92	1.88	1.54	1.85	2.11
Net Loan Losses / Total Loans (median %)	0.07	0.08	0.09	0.09	0.08

Capital / Earnings	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Tier 1 Leverage (median %)	9.63	9.34	9.34	9.54	9.67
Return on Assets (median %)	1.08	1.10	1.08	1.10	1.10
Pretax Return on Assets (median %)	1.39	1.38	1.38	1.43	1.42
Net Interest Margin (median %)	4.19	4.18	4.22	4.24	4.26
Yield on Earning Assets (median %)	6.86	6.83	6.99	7.24	7.56
Cost of Funding Earning Assets (median %)	2.64	2.63	2.78	2.98	3.31
Provisions to Avg. Assets (median %)	0.08	0.09	0.10	0.10	0.10
Noninterest Income to Avg. Assets (median %)	0.62	0.62	0.62	0.60	0.60
Overhead to Avg. Assets (median %)	3.06	3.10	3.07	3.07	3.06

Liquidity / Sensitivity	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Loans to Assets (median %)	60.1	58.6	58.9	61.2	62.5
Noncore Funding to Assets (median %)	17.1	15.7	15.3	15.1	15.7
Long-term Assets to Assets (median %, call filers)	9.8	11.9	10.4	10.5	9.5
Brokered Deposits (number of institutions)	56	48	47	41	37
Brokered Deposits to Assets (median % for those above)	4.0	2.4	2.4	3.3	2.1

Loan Concentrations (median % of Tier 1 Capital)	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Commercial and Industrial	83.2	82.3	80.0	82.8	85.1
Commercial Real Estate	75.0	75.7	74.3	67.3	64.4
Construction & Development	10.3	10.0	11.4	9.7	8.4
Multifamily Residential Real Estate	0.2	0.1	0.0	0.0	0.0
Nonresidential Real Estate	58.3	56.1	49.4	47.6	44.1
Residential Real Estate	123.1	126.9	128.4	131.9	127.9
Consumer	40.8	44.9	49.9	53.8	55.2
Agriculture	141.4	143.1	152.0	155.1	154.7

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Kansas City, MO-KS	154	31,123	< \$250 million	329 (88.4%)
Wichita, KS	59	8,062	\$250 million to \$1 billion	34 (9.1%)
Topeka, KS	38	4,054	\$1 billion to \$10 billion	9 (2.4%)
St. Joseph, MO-KS	26	1,777	> \$10 billion	0 (0%)
Lawrence, KS	25	1,363		